# Birla Cable Limited (Revised)

January 03, 2023

## Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities@ | 65.00 | CARE A+ (CE); Stable [Single A Plus (Credit Enhancement); Outlook: Stable] | Reaffirmed |
| Short-term bank facilities@ | 123.00 | CARE A1+ (CE) [A One Plus (Credit Enhancement)] | Reaffirmed |
| **Total bank facilities** | **188.00 (₹ One hundred eighty-eight crore only)** | | |

Details of facilities in Annexure-1.

@The above ratings are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee from Vindhya Telelinks Limited (VTL; rated CARE A+; Stable/CARE A1+).

| | |
|---|---|
| **Unsupported rating** | **CARE BBB+/CARE A2 (Triple B Plus/A Two) [Reaffirmed]** |

Note: Unsupported rating does not factor in the explicit credit enhancement.

## Detailed rationale and key rating drivers for the credit-enhanced debt of Birla Cable Limited

The ratings assigned to the bank facilities of Birla Cable Limited (BCL) factor in the credit enhancement in the form of an unconditional and irrevocable corporate guarantee (CG) extended by Vindhya Telelinks Limited (VTL; rated CARE A+; Stable/CARE A1+) towards the timely servicing of the debt obligations.

## Detailed rationale and key rating drivers – VTL (Guarantor)

The reaffirmation of the ratings assigned to the bank facilities of VTL continues to derive strength from the well-established, resourceful and experienced promoter group with demonstrated financial support to the company and its diversified product portfolio catering to the telecom, power distribution, and solar energy sectors with a strong market position in the supply of optical fibre cables (OFCs) to the telecom sector. The ratings also factor in the healthy order book position of the company strengthened by the large State Water Sanitation Mission (SWSM) order from the Uttar Pradesh State Government; VTL's satisfactory, albeit moderate financial risk profile, characterised by moderate gearing and debt coverage metrics; and its adequate liquidity position. The ratings also take cognisance of the improved operational performance of the company in H1FY23 (UA) on the back of a recovery in demand witnessed in the engineering, procurement and construction (EPC) business after a muted performance in the past couple of years.

The ratings strengths are, however, tempered by the company's large working capital requirements being met through both, fund-based and non-fund-based limits, attributable to the inherently working capital-intensive operations due to the elongated collection cycle (although expected to improve, going forward) and the substantial inventory holdings in the EPC segment, the inherent risk associated with large and tender-based orders, the susceptibility to volatile raw material prices and the prevalent competition in the EPC as well as cables businesses. CARE Ratings Limited (CARE Ratings) believes that the company's working capital cycle, which was stretched over the past two years amid the COVID-induced disruptions, especially in the EPC business, is expected to be rationalised during the current fiscal on the expectation of higher income and better collections, which will be critical for the company's credit profile and will remain a key rating monitorable.

## Detailed rationale and key rating drivers – BCL for the Unsupported rating

The Unsupported rating assigned to the bank facilities of BCL continues to derive strength from the well-established, resourceful and experienced promoters, operational synergies, as well as financial support extended by the group companies, coupled with a moderate financial risk profile characterised by a comfortable capital structure (although moderation expected, going forward, owing to the proposed incremental debt) and satisfactory debt metrics, and the adequate liquidity position. The rating also takes cognisance of the increase in the scale of operations in FY22 and H1FY23 (UA) and the shortening of the operating cycle of the company. The above rating strengths are, however, tempered by the concentrated yet reputed clientele profile, working capital

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

intensity associated with its operations, susceptibility to volatile raw material prices, as well as the prevalent competition in the cable industry.

## Rating sensitivities – VTL

**Positive factors – Factors that could lead to positive rating action/upgrade:**

- Significant and sustainable improvement in the operating performance (including the profit before interest, lease rentals, depreciation and taxation [PBILDT] margin) and return on capital employed (ROCE) of more than 15% on a sustained basis.
- Significant and sustainable improvement in the operating cycle to less than 120 days.

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- Adjusted overall gearing (considering CG extended to group companies) beyond 1.5x on a sustained basis.
- Continued stretched operating cycle or deterioration in the operating cycle either by a further increase in the inventory-holding period or collection period.
- Significant and consistent decline in the PBILDT margin and moderation in the ROCE to below 9% on a sustained basis.

## Detailed description of the key rating drivers – VTL

**Key rating strengths**

**Well-established, resourceful, and experienced promoters with demonstrated financial support to the company:** VTL is an M. P. Birla group company, one of the established business houses in India having various business interests like cement, jute, carbide, power cables, optical fibre cables, guar gums, power capacitors, etc. These businesses are operated through various companies such as Birla Corporation Limited (rated CARE AA; Stable/CARE A1+), VTL, Hindustan Gums & Chemicals Limited (rated CARE A+; Stable/CARE A1+), and Universal Cables Ltd (UCL; rated CARE A; Stable/CARE A1). The day-to-day operations of the company are managed by a team of experienced and qualified personnel headed by Y.S. Lodha, Managing Director and CEO, who has over three decades of experience in the cable industry. Moreover, the group has supported the company through the infusion of funds in the form of inter-corporate deposits (ICDs) and unsecured loans (USL), which stood at ₹150 crore as on September 30, 2022. Going forward, CARE Ratings believes that the company will continue to enjoy the group's support and financial flexibility.

**Wide product portfolio catering to diverse industries:** The company primarily has two operating segments, viz, manufacturing of cables (around 40% of the total operating income [TOI] in FY22) and the EPC division (around 60%). VTL's cable division has a wide range of products, including OFC, copper cables, speciality cables, solar photovoltaic [PV] cables, and also telecom fibre accessories. The company has diversified in railway signalling and quad cables, which are used in the electrification of track routes by the railways. It also has a presence in the EPC and turnkey solutions segments for infrastructure projects. In addition, the company has recently received a ₹5,498 crore water sanitation order from the State Water Sanitation Mission (SWSM), Uttar Pradesh Government. Furthermore, a major part of the EPC order book comprises orders related to the telecom segment and the energy utilities segment, catering to projects which are primarily funded by the Central Government of India. In the telecom segment, the company has been actively involved in government projects such as BharatNet and the National Broadband Mission. The company has also executed a large optical fibre cable network project under the IP-1 model and started providing services to leading telecom operators. Apart from energy and telecom, the company also undertakes EPC activities for sewerage pipeline projects, lift irrigation projects, and all other allied project segments. Going forward, the SWSM project is expected to be the major revenue driver.

**Healthy order book position providing medium-term revenue visibility:** VTL's outstanding order book position as on September 30, 2022, stood at a healthy level of ₹6,859 crore (₹1,198 crore, as on September 30, 2021). The order book has been strengthened by a single order valuing ₹5,345 crore (yet to be executed, as on September 30, 2022, out of the total order book of ₹5,498 crore) from the SWSM, Government of Uttar Pradesh. The company is required to set up drinking water facilities while connecting all the households in four districts of Uttar Pradesh – Lakhimpur, Kanpur (Nagar), Bijnore, and Ambedkar Nagar. The project is for a total of 5,498 villages and is expected to be executed by September 2024. Post-completion of the project, the company is also required to provide operations and maintenance (O&M) services for a period of 10 years. As the order is expected to be the major revenue driver for the company in the next couple of years, the timely execution (reckoning the large size) and timely realisation of the receivables from the project will remain key monitorable.

**Improved operational performance, likely to sustain:** The operating income of the company had seen a steady decline from around ₹2,100 crore in FY19 to around ₹1,325 crore in FY22. This has been on account of the subdued performance of the EPC segment, where the order flow and execution were impacted because of the COVID-19 pandemic, environmental issues, and regulatory delays. The PBILDT and profit-after-tax (PAT) margins in FY22 also moderated to 12.17% and 6.38%, respectively, compared with 13.99% and 6.89%, respectively in FY21. This was owing to the higher operational expenses incurred by the company during the year. In H1FY23 (UA), on the back of improved industry scenario and better execution, the operating income witnessed a healthy growth of more than 33% as compared with the same period last year. The EPC segment witnessed a growth of more than 40% while the cable manufacturing segment grew by more than 20% as compared with the same period last year. The company has registered an income of around ₹150 crore in H1FY23 from the new SWSM project. The PBILDT margin of the company, however, moderated to 10.04% as compared with the 13.82% achieved in the same period last year. The profitability in H1FY22 was shored up due to the execution of one high-margin order during that period.

**Satisfactory, albeit moderating financial risk profile:** On the back of repayment of the term debt and debentures and lower working capital borrowings at the end of the year, the overall gearing ratio of the company improved considerably from 0.89x as on March 31, 2021, to 0.58x as on March 31, 2022. The adjusted gearing (taking into account the CG provided to Birla Cable Limited) also improved to 0.80x as on March 31, 2022 (PY: 1.14x). The PBILDT interest coverage ratio registered a marginal improvement to 2.83x in FY22 (PY: 2.69x) on the back of lower interest cost, despite a decline in the absolute value of the PBILDT. On the back of lower debt outstanding at the end of the year, the total debt (TD)/PBILDT ratio remained fairly stable at 3.65x (PY: 3.75x) as on March 31, 2022. However, the overall gearing moderated to 0.73x as on September 30, 2022, with the outstanding debt increasing because of the fresh availment of term loans. Fresh term loans have been availed to modernise the manufacturing facilities, repay the ICDs and USLs, and augment the working capital to fund the increasing scale of operations. The company has plans to infuse funds or convert USLs and ICDs into equity in the near term, which should prevent any significant deterioration in the capital structure in the near future.

**Liquidity:** Adequate

The overall liquidity profile of the company remains adequate, with expected healthy cash accruals vis-à-vis term debt repayment obligations in FY23. The average utilisation of the fund-based working capital limits stood at a comfortable level of around 52% for the period from October 2021 to September 2022. The company also holds shares of the group companies which are listed and the combined aggregate market value of the same stood at over ₹960 crore as on March 31, 2022. Also, the three wholly-owned subsidiaries of the company have unencumbered investments (in liquid assets) amounting to ₹45 crore as on September 30, 2022, which can be accessed by VTL in case need arises. Moreover, the business requirements of the company have been supported by the fund infusions by the group entities in the past and the same is expected to increase going forward with further infusion envisaged in the near term. With an overall gearing of 0.58x, VTL has adequate headroom to raise additional debt to meet its capex requirements.

**Key rating weaknesses**

**Large working capital requirements, albeit lower reliance on working capital borrowings:** Although the operating cycle of the company shortened slightly to 353 days in FY22 from 363 days in FY21 on the back of a decrease in the inventory-holding and collection period, it continued to remain elongated. The average credit period for debtors in the cable segment is around 120 days while it is around 150-160 days for the debtors in the EPC segment. However, the collection period of the company has been witnessing a declining trend, with the debtors lowering substantially from ₹1,154 crore as on March 31, 2021, to ₹708 crore as on March 31, 2022, and further to ₹655 crore as on September 30, 2022. The improvement was owing to the realisation of some of the old debtors and early collection in the incremental orders executed by the company. Going forward, the collection period of the company is expected to improve on the back of better realisation terms for the new SWSM project, which is expected to be the major revenue contributor going forward. Besides, the average utilisation of the fund-based working capital limits stood at a satisfactory level of around 52% for the 12 month period up to September 2022. The company has high reliance on the non-fund-based working capital limits for the procurement of materials and bank guarantee requirements in the EPC segment.

**Susceptibility to volatility in raw material prices:** The main raw materials required are copper, aluminium, compounds, and optical fibre. The company procures copper mainly from Hindalco and partially imports it. These purchases are mostly backed by letters of credit (LCs). The other important raw material is optical fibre, which is procured from a group company named Birla Furukawa Fibre Optics Private Limited (rated 'CARE A; Stable/CARE A1'). The company is insulated against the volatility in optical fibre prices due to this arrangement. Also, for the EPC orders, the company mostly has price escalation clauses for large and longer tenure orders. However, it may be noted that there is no price variation clause for the SWSM order bagged by the company. Hence, the company remains susceptible to volatility in the prices of other raw materials that are procured from external sources.

**Inherent risk associated with the execution of large orders in the EPC segment:** VTL derives its major revenue from the execution of orders in the EPC segment (60% in FY22 as compared with 70% in FY21). Even the latest order book (as on September 30, 2022) had the EPC segment contributing around 98% of the total order book position. The company is executing a large water sanitation project in Uttar Pradesh, wherein any procedural delays or weather-related issues can impact the operational performance of the company. Furthermore, a significant proportion of the total order book position comprises orders from the telecom segment. Any delay or deferral of operational and capital expenditure of the customers may impact the operational performance of the company. The company also has large EPC orders from state-run companies Indian Telephone Industries Limited and Bharat Broadband Network Limited (BBNL) for the government's mega project, BharatNet, which intends to digitally connect 250,000-gram panchayats through an optical fibre network. Any financial stress in these companies can cause delays in recovery of the payment by VTL.

**Prevalent competition in the cable and EPC business:** The cable business in recent times is experiencing stiff competition in the domestic market on account of higher installed capacity. Furthermore, the demand in the cable business is mainly dependent on the operational and capital expenditure from the telecom and power distribution companies. Any delay or deferral of such expenditure will impact the revenue visibility of companies catering to this business. Also, the EPC business continues to face competition due to the presence of many players. The order inflow depends on the opex of state discoms, telecom companies, and other government institutions.

## Prospects

The long-term demand outlook for the domestic transmission and distribution industry is expected to be favourable due to the focus on reforms in the transmission and distribution segment and investments lined up in the power generation sector to bridge the demand-supply gap. This should boost the EPC segment of the company, which gets its orders from energy utilities. The prices of optical fibre were low previously, leading to lower realisations across the industry. This decline in prices was led by ample availability of optical fibre caused by high-capacity expansion undertaken by all the major players across the world and lesser-than-expected demand from China, which is the largest consumer of optical fibre in the world. However, the demand for optical fibres is bouncing back owing to the commencement of 5G deployment across the globe. The domestic demand is also expected to improve owing to the huge surge in data consumption as well as the 5G rollout, for which the telecom players need to build new network capacities as well as enhance their existing infrastructure. Furthermore, the revenue of the company is expected to see a major uptick on the back of the execution of the SWSM project until FY25. The timely execution and timely realisation of debtors will remain the key monitorable going forward.

## Analytical approach: Standalone for the Unsupported rating

While assessing the guarantor's credit risk profile, CARE Ratings has also considered the CG extended by VTL to BCL, primarily for analysing the debt metrics of the company.

## Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Credit Watch
Manufacturing Companies
Service Sector Companies
Policy on Withdrawal of Ratings

## About the company – VTL

VTL is engaged in the manufacturing of telecom cables as well as EPC services to telecom, power, gas distribution pipelines, and sewage projects. The manufacturing plant of the company is located at Rewa, Madhya Pradesh. The company currently has an optical fibre cable manufacturing capacity of 60 lakh fibre km per annum. The company caters to a reputed client base like Bharat Sanchar Nigam Limited, Mahanagar Telephone Nigam Limited, Indian Railways, Defence (Indian Army), NTPC Limited, Steel Authority of India Limited, Bharti Airtel Ltd, Reliance Jio Infocom Ltd, etc. The company has also recently ventured into the EPC of water sanitation projects by bagging a large order under the SWSM, Uttar Pradesh, which entails providing functional household tap connection (FHTC) in all allocated households in the four districts of the state.

| Brief Financials (₹ crore) | FY21 (A) | FY22 (A) | H1FY23 (UA) |
|---|---|---|---|
| Total operating income | 1,502.06 | 1,325.23 | 887.20 |
| PBILDT | 210.17 | 161.34 | 89.05 |
| PAT | 103.56 | 84.61 | 47.79 |
| Overall gearing (times) | 0.89 | 0.58 | 0.73 |
| Interest coverage (times) | 2.69 | 2.84 | 2.88 |

A: Audited; UA: Unaudited; Financials are reclassified as per CARE Ratings' standards.

## About the company – BCL

BCL, incorporated in 1992, belongs to the M P Birla group and is engaged in the manufacturing and sales of all types of optical fibre cables, copper telecommunication cables, structured copper cables, specialty cables, and allied accessories. The company has a manufacturing plant at Rewa, Madhya Pradesh, with a total capacity of around 3,600,000 fibre km. The company is currently headed by Harsh V Lodha, Chairman.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | H1FY23 (UA) |
|---|---|---|---|
| Total operating income | 329.30 | 537.80 | 348.74 |
| PBILDT | 26.10 | 45.81 | 26.63 |
| PAT | 8.20 | 21.74 | 12.23 |
| Overall gearing (times) | 0.42 | 0.44 | 0.66 |
| Interest coverage (times) | 5.40 | 7.44 | 5.03 |

A: Audited; UA: Unaudited; Financials are reclassified as per CARE Ratings' standards.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated for this company**: Annexure-4

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 65.00 | CARE A+ (CE); Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 120.65 | CARE A1+ (CE) |
| Non-fund-based - ST-Working Capital Limits | | - | - | - | 2.35 | CARE A1+ (CE) |

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 65.00 | CARE A+ (CE); Stable |
| Unsupported rating-Unsupported rating (LT/ST) | | - | - | - | 0.00 | CARE BBB+ / CARE A2 |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1. | Fund-based - LT-Cash Credit | LT | 65.00 | CARE A+ (CE); Stable | - | 1)CARE A+ (CE); Stable (03-Dec-21) | 1)CARE A+ (CE); Stable (11-Feb-21) | 1)CARE A+ (CE); Stable (06-Jan-20)<br><br>2)CARE AA- (SO); Stable (02-Apr-19) |
| 2. | Non-fund-based - ST-Working Capital Limits | ST | 2.35 | CARE A1+ (CE) | - | 1)CARE A1+ (CE) (03-Dec-21) | 1)CARE A1+ (CE) (11-Feb-21) | 1)CARE A1+ (CE) (06-Jan-20)<br><br>2)CARE A1+ (SO) (02-Apr-19) |
| 3. | Non-fund-based - ST-BG/LC | ST | 120.65 | CARE A1+ (CE) | - | 1)CARE A1+ (CE) (03-Dec-21) | 1)CARE A1+ (CE) (11-Feb-21) | 1)CARE A1+ (CE) (06-Jan-20)<br><br>2)CARE A1+ (SO) (02-Apr-19) |
| 4. | Unsupported rating-Unsupported rating (LT/ST) | LT/ST* | 0.00 | CARE BBB+ / CARE A2 | - | 1)CARE BBB+ / CARE A2 (03-Dec-21) | 1)CARE BBB+ / CARE A2 (11-Feb-21) | 1)CARE BBB+ / CARE A2 (06-Jan-20) |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated facilities**

Not applicable

**Annexure-4: Complexity level of the various instruments rated for this company**

| Sr. No. | Name of Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Non-fund-based - ST-BG/LC | Simple |
| 3. | Non-fund-based - ST-Working Capital Limits | Simple |
| 4. | Unsupported rating-Unsupported rating (LT/ST) | Simple |

**Annexure-5: Bank lender details for this company**

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| To view the lender-wise details of the bank facilities, please click here. |

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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